

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

PERIODIC REPORTING
(PROPOSAL THIRTEEN)

Docket No. RM2015-7

**REPLY COMMENTS OF THE UNITED STATES POSTAL SERVICE
IN RESPONSE TO UPS SUPPLEMENTAL REPORT**
(July 8, 2015)

On June 8, 2015, in accordance with Order No. 2455 (April 23, 2015), UPS submitted a Supplemental Report by Dr. Neels. The Supplemental Report was attached to UPS comments on that supplemental report. In its June 8th filing, however, UPS also included responses “to points made by the Postal Service in its Reply Comments dated May 13, 2015” UPS Comments (June 8, 2015) at 1. It bears noting that no such surreply comments were authorized by Order No. 2455. In any event, the Postal Service hereby submits its reply to the UPS comments, and a reply by Prof. Bradley to the Supplemental Report by Dr. Neels. Professor Bradley’s *Analysis of the Supplemental Report by Dr. Neels* is attached to this pleading electronically.

A. The UPS arguments in support of the adoption of Dr. Neels’ new model are incorrect

In its supplemental comments, UPS urges the Commission to adopt Dr. Neels’ aggregate street time model based, in part, on Form 3999 data. UPS Comments at 5. It does so as it claims, that the model “generates strong statistical and econometric results.” UPS Comments at 17. UPS does not explain how it differentiates “statistical” from “econometric” results and on what basis they are “strong,” but review of Dr. Neel’s model shows that it suffers from fundamental flaws. As Professor Bradley points out, Dr. Neels does not have the data necessary to estimate the model, so he must “impute”

or create data for four key explanatory variables for all observations. Professor Bradley further shows that the imputation method simply does not work, even for the 300 ZIP Codes included in the estimation process, let alone the other 10,000 ZIP code for which imputation is required. As Professor Bradley explains:

In sum, the tests of the imputations required to estimate the aggregate street time equation using national Form 3999 data show that they are biased and inaccurate. They do not appear to provide a reliable basis for accurately estimating the coefficients in the variability equation. Because accurate predictions are necessary for reliable estimation of the variability equation, the proposed procedure of using the national Form 3999 data for that estimation fails on this basis alone.

Bradley *Analysis* at 12.

Even if Dr. Neels' imputations were to be accurate, which they are not, his econometric methodology suffers from other serious flaws. Dr. Neel's two-step estimation results in biased standard errors, so Dr. Neels' inferences about the results are unreliable. In addition, inclusion of so many different terms (66 right-hand-side variables) generates a severe multicollinearity problem for Dr. Neels' specified equation. Even with 10,000 observations, Dr. Neels is not able to successfully estimate the equation, suggesting that he has completely failed to demonstrate even the basic feasibility of his approach. Dr. Neels' aggregate model not only fails to provide reliable and sensible estimates for parcel variabilities, it fails to provide reasonable estimates for FSS volumes.

UPS also argues for adoption of Dr. Neels' aggregate model by asserting that it is not based upon assumptions. UPS Comments at 7-10, 16-17. But this assertion is false. The aggregate model is based upon assumptions but UPS does simply not

acknowledge them, much less justify them. For example, application of a single aggregate equation for street time embodies the strong assumption that all of the various activities a carrier performs on the street have a single, homogenous cost generating function. If that assumption is not correct, then the aggregate street time equation is mis-specified.

Finally, UPS argues that the Commission should not accept a model which is highly reliant upon data collected in a special study. UPS Comments at 10-11. Apparently, UPS is unaware that Dr. Neels' aggregate street time model is not just heavily reliant upon special study data, but critically dependent on such data. In fact, as Professor Bradley points out, Dr. Neels could not estimate his street time equation, if it were not for the special study data. Dr. Neels uses the special study data to form his imputation equations and without the special study data, no imputations would be possible. UPS will likely respond that it is using the special study data only because no other data are available, but, of course, that is exactly the same reason that the Postal Service collected and used the data. Dr. Neel's data is no less reliant on the special study data than the Postal Service's models.

B. The UPS arguments for Dr. Neels' modified Proposal 13 are also incorrect.

Because of the many apparent and fundamental flaws in Dr. Neels' aggregate street time model, UPS proposes a fallback position. The fallback involves application of Dr. Neel's modification of the Postal Service's regular delivery time equation, in which he adds DOIS parcel volumes to that equation. UPS Comments at 18-19. This model was presented in Dr. Neel's initial report and rebutted by the Postal Service in its comments, so it is not clear why UPS' analysis of the supplemental Form 3999 data

includes its re-iteration.

In any event, UPS, mirroring Dr. Neels, mistakenly asserts that parcels should be included in the regular delivery equation because city carriers simultaneously handle several mail streams at different points of the day. But, as Professor Bradley definitively demonstrates, simultaneous handling of multiple mail streams is not a sufficient justification for including parcels in the regular delivery equation. Estimation of separate parcel and accountable variability equations is entirely consistent with carriers handling multiple mail streams throughout the day.

Contrary to UPS assertion, Dr. Neels, failed to demonstrate that parcels materially or significantly affect regular delivery time. As Professor Bradley points out, Dr. Neels' estimations are deeply flawed, do not support the statistical inferences that he draws, and there is great doubt about the empirical role of parcels in the regular delivery equation. Moreover, UPS continues to put forth the red herring that the Postal Service is asserting that there absolutely no possible operational relationship between parcels and regular delivery. That is not the case, as Professor Bradley explains:

The Postal Service's approach is not predicated on an assumption that there is absolutely no possible relationship between parcel mail and the other mail streams. Rather, it is based upon the practical reality that that relationship, if it exists, is relatively small and is very difficult to estimate accurately.

Bradley *Analysis* at 23. There is an insufficient basis for the Commission to adopt Dr. Neel's modified Proposal 13 approach.

C. The UPS argument that Dr. Neels' model attributes a "more realistic" share of costs to competitive products reveals its bias.

UPS is seemingly upset because the Postal Service approach attributes "only" 6.9 percent of street time to competitive products, while 9.2 percent of all costs are so attributed. UPS Comments at 2. Apparently, UPS somehow "knows" that this result is wrong, despite the obvious operational difference between street time and other postal functions. Of course, this simply reveals UPS' bias. UPS does not even consider the fact that the 6.9 percent attribution might be the accurate and correct result. Much of street time activity is network related with carriers undertaking the exact same action regardless of volume, so the attribution should be low. Competitive products, given their low volumes, may not be the main drivers of street time, and thus could be causing a relatively small proportion of total street time. Empirical measurement is required to determine how much should be attributed.

With these supplemental comments, UPS has made it abundantly clear that it is not interested in evaluating a city carrier costing methodology on its merits; rather it is only interested in evaluating it on its results. This is a fundamental violation of basic research methodology and renders any results obtained under this direction to be suspect. The appropriate approach would be for UPS to endorse a methodology, before it knew the results of the application of that methodology, like the Postal Service did. That is the nature of scientific research.

In conclusion, as Professor Bradley's *Analysis* compelling demonstrates, there is nothing in the supplemental work offer by Dr. Neels to support any result other than adoption by the Commission of Proposal Thirteen.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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